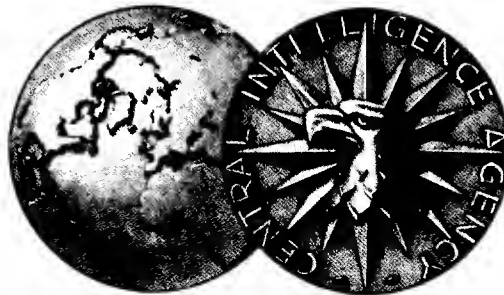


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# REVIEW OF THE WORLD SITUATION



CIA 1-49

Published 19 January 1949

CENTRAL INTELLIGENCE AGENCY

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REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY  
OF THE UNITED STATES

SUMMARY

1. In Europe generally, a moment of temporary deadlock and stocktaking seems to have been reached. Situations that have been previously noted are being developed tactically rather than strategically. New developments can be anticipated as the US-USSR balance-sheet is drawn up.

2. The Dutch "police-action" in Indonesia will have repercussions far beyond the particular situation it was designed to settle. A large number of interlocked security problems are raised for the US because a wide range of security interests is simultaneously affected. In Asia there is the general question of US influence in competition with USSR influence, and the related questions of a solution to the Asiatic colonial issue and of a political stabilization that will block the spread of Communism. It is not considered, in spite of superficial immediate success, that the Netherlands can control the situation over the long run.

3. The Chinese National Government is being edged nearer to final collapse and no realistic means is presently at hand to prevent the establishment of a Communist-dominated regime. The fact that Chiang Kai-shek's government has prepared a retreat in Taiwan has considerably changed the situation in this strategically important island.

4. THE NEAR EAST.

From the US point of view, the situation in Greece is deteriorating; in Turkey, remains firm and unaffected by recent cabinet changes; in Iran, is showing improvement. Israel, now that it is a state in being and has a locally superior power foundation, is coming face to face with its internal economic and political problems. The Arab States, with the exception of Saudi Arabia, are beginning seriously to feel the aftermath of their defeat. They may well be approaching a critical point in their postwar history, as social and economic problems increase and traditional political authority weakens.

5. YUGOSLAVIA.

Tito's position is drawing close to the point where he must show his hand and choose between the contradictory lines—trade-ties with the West and foreign policy ties with the USSR—he has been trying to follow.

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Note: This review has not been coordinated with the intelligence organizations of the Departments of State, Army, Navy, and the Air Force. The information herein is as of 17 January 1949.

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6. LATIN AMERICA.

The only point of interest concerns two principles of inter-American relations—the recognition of new governments established by force, and the handling of inter-American disputes when they have led to armed attacks. The first has come up for re-examination and the second has resulted in action under the authority of the Rio Treaty.

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**REVIEW OF THE WORLD SITUATION AS IT RELATES TO THE SECURITY  
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**1. EUROPE.**

No detailed examination will be made of the over-all situation in this area. The broad picture, as it has been drawn in recent months, is unchanged. The fact is that the US and the USSR have pretty well exhausted the strategic courses of action earlier initiated and have come to a temporary deadlock. Current developments in Germany, as well as in Western and Eastern Europe, have the character of tactical adjustments. The more clearly Germany has been defined as the key area in Europe, the more necessary it has become for the US and Western Europe to take stock of their position and to gather together the loose ends of their relations to each other, to Germany, and to Soviet power; and the more necessary it has become for the USSR to take stock of and to consolidate its position in Eastern Europe. The development of new courses of action depends upon the nature of these estimates. Until they have been made, and pending basic judgments concerning the future of ERP, an Atlantic Pact, the economic strength of the USSR and the Satellites, and the real effect of Asiatic and Middle Eastern problems on the power relations of West and East, it is probable that the European situation will continue, for a short time at least, in its present form.

**2. INDONESIAN IMPLICATIONS.**

On 18 December the Netherlands government began military operations against the Indonesian Republic. The objective of this well-prepared action was to reduce a complex political and economic deadlock to an older and simpler pattern of colonial control. The operation was officially designated as completed on 5 January. The Netherlands government presumably considers that a political conflict has been resolved by the timely and judicious use of force and is now prepared to turn to its next problems: placating opinion in the US, working out of harmless compromises with Indonesian nationalism, and the rapid reestablishment of the productive capacity of the East Indies.

If Indonesia had its own private "iron curtain," these calculations might be reasonably accurate and long-term US security interests might not be involved. But Indonesia does not exist in a vacuum and basic US security interests are not simple and limited. US security rests on the strategic consequences of related events in China, India, Southeast Asia, and the offshore islands; and what happens in Indonesia both affects and is influenced by these events.

US security also rests on the outcome of already well-established political and social trends in Asia generally, and on the judgments and preferences of the Asiatic masses. It also depends on the final character of the relation between Western European states and their colonial territories, in the capacity of the United Nations to reduce and dispose of the tensions that arise in connection with these relations, and

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on the maintenance of the economic programs which are being developed in ECA in collaboration with Western European states.

Each of these aspects of US security is affected to a greater or less degree by Dutch action in Indonesia. The balance in which they have been precariously held has now been knocked over by a blunt instrument. Regardless of the momentary stability that "police action" may impose, it is considered likely that this action will ultimately release more dangerous social and political forces than those it has brought under control. Although it is too soon to estimate with certainty what new balance may be found, it is possible to assess the immediate damage

- a. to a satisfactory solution of the colonial problem,
- b. to a satisfactory political stabilization of the Far East,
- c. to the economic programs that the US has been developing in the interest of its own security.

This damage will be examined in detail in what follows.

*The Colonial Problem from the US point of view*

The essence of this problem since 1945 has been how to satisfy the nationalist aspirations of colonial peoples while at the same time maintaining the economic and political stability of European colonial powers. An adequate solution of the first part of the problem is essential to the protection of long-term US security interests in the Far East. An adequate solution of the second part is essential to the support of immediate US security interests in Europe. Both parts are applicable to the relative power positions of the US and the USSR on the global scale. The problem, though it remained unsolved, was at least kept from developing to the point where a critical US decision would be required. It is considered possible that the Dutch "action" has pushed the US close to this critical point. US security interests in Europe and the Far East are in danger of appearing as mutually exclusive, when, in fact, the power position of the US vis-à-vis the USSR requires that they be pursued concurrently.

*The Political Stabilization of the Far East from the US point of view*

The essence of this problem is to stabilize contending political forces in the various countries of the Far East before the realities of political authority are gathered together and exercised by Communist groups. Contention has been many-sided. It has included competitions for power between local factions, ideological and class conflicts, struggles of local nationalists against the local beneficiaries of Western colonial regimes, general nationalist movements against the Western colonial powers. The implied power struggle between the US and the USSR has colored each and all of these more restricted conflicts. A persistent security problem for the US has been the fact that the prolongation of these struggles has clearly permitted the Communists to join in and manipulate them to their own advantage.

The forceful solution which the Netherlands government has attempted in Indonesia will have unfavorable repercussions over a wide area. Events in Indonesia will

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set a pattern by which Asiatic peoples will reestimate the meaning of the various struggles in which they find themselves involved, recalculate possible outcomes, and reconsider their positions. The Dutch "police action" provides ample material for a prolonged Communist propaganda campaign and the greater part of this material will seem irrefutable when presented in the context of Asiatic nationalism versus Western imperialism. The ambiguous position in which the US has been placed will, unless rapidly clarified, provide an ideal chance to discredit past and to prejudice future US influence on Asiatic opinion.

Thus the kind of negotiated political stabilization at which the US has aimed in the Far East has been pushed off indefinitely. The alternative possibilities are not very desirable from the US point of view. One such is that other European states may attempt similar forceful stabilizations in their areas of special interest and thus put the colonial-nationalist conflict irrevocably beyond the reach of negotiation and compromise. Another alternative has appeared—the formation of a Pan-Asian bloc. The Dutch "action" may have opened the way for such a creation by providing a rallying point for diffused Asiatic political feelings. A Conference of Asiatic States has been called for 20 January to consider ways of assisting the Indonesian Republic; and proposals have been made for sanctions against and the breaking of diplomatic relations with the Netherlands. It is not possible to assert that a Pan-Asian bloc will emerge from the excitement of the present moment, but it should be noted that India has been seeking opportunities to assert leadership in Asia and that, even in an amorphous form, such a bloc could command an immense potential for taking concerted political action in its own special interests. It is also certain that the primary target of such action would be the colonial powers of Western Europe, with the US subject to probable identification as an imperialistic fellow-traveler. It is not necessary to speculate on whether or not such a bloc would align itself with the USSR, since, if it committed itself to a clearing-out of Western influence from Asia, it would adequately serve the long-term purposes of the USSR.

A third alternative, which has been given special impetus by Communist successes in China, is that Asiatic peoples, examining Dutch "action" in terms of their own nationalist aspirations, may jump to the conclusion that these aspirations can be most quickly realized through a Communist social order and in conjunction with the USSR. A delicate point has been reached in the mass psychological relations of Oriental and Western societies, and it is possible that the policy of the Netherlands government may have fundamentally altered the character of these relations.

*US Economic Programs*

This problem can be treated in a more limited and immediate context. It consists of maintaining the availability of Indonesian commodities (tin, bauxite, rubber, petroleum, and vegetable oils) (a) for US economy, (b) for the European Recovery Program, and (c) as a source of dollar credits for the Netherlands government. The precise economic consequences cannot be finally estimated. A "police induced" stability, assuming that it can be maintained, may increase delivered output in the short-

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term. "Police action," on the other hand, by calling into play organized guerrilla counteraction, may have exactly the opposite effect in the longer-term; and, even more significantly, this effect may be communicated to other production areas of Southeast Asia.

From the US point of view, Southeast Asian commodities have a major place in US peacetime economy, in strategic stock-piling programs, and in the implementation of ERP. The present situation is that the production of tin and bauxite will probably not show an immediate decrease since production is concentrated in areas that have always been under Dutch control. Rubber production, however, may be considerably reduced since the growing areas are open to easy sabotage. In addition, the collection and shipment of these as well as all other Indonesian commodities will probably be hampered by strikes, sabotage, guerrilla activity, and prolonged instability. And, if the Indonesian conflict leads to an intensification of conflict in other Asiatic areas, US stock-piling and other programs will be further impeded.

With respect to the Netherlands and Western Europe generally, the Netherlands government has initiated an action in which it runs a dangerous race against time and circumstances. Dutch economic planning after 1945 was based on the assumption that Indonesia would eventually be reestablished as a major source of dollar credits. Even then, the most optimistic Dutch estimate was that Indonesia would not have a favorable balance of payments before 1950. The validity of these assumptions is now in serious question. The cost of a prolonged upheaval in Indonesia—and there is little evidence to indicate that it will be short—will have to be balanced against the rate at which Indonesian resources can be converted into dollars through trade. While an answer is being given to this question, Dutch finances will be strained and the difficulties of evolving a viable domestic economy will be increased. At present 19% of the Dutch budget goes into military expenditures and the major part of this is devoted to armed forces in Indonesia. The burden of prolonged weakness and possible failure in the purely economic field will not fall on the Netherlands alone. The Benelux Custom Union is directly affected and the contribution of the Netherlands to ERP will have to be restudied. Finally, the part to be played by the Netherlands in a Western defense system will need re-examination.

*The Long-Term Security of the US*

The preceding analysis has touched on many of the security problems opened up by the present situation in Indonesia. It only remains to point out that Dutch "action" has cut the US position to the bone by touching on nearly all basic US security interests simultaneously. Furthermore, this has occurred at a moment of dubious balance, when possible gains in Western Europe have to be measured against possible losses in the Far East.

The validity of this analysis rests to a considerable extent on the answer to the question, "Can the Netherlands government stabilize its position in Indonesia in the very near future and at a readily recoverable cost; or, will it fail to do so?" It is believed that the Indonesian Republic is capable of maintaining guerrilla operations

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for several years. It is known that the Republic has substantial financial resources beyond Dutch reach. It is not anticipated that the Netherlands government will be able to undercut resistance by winning the support of a sufficient number of nationalist leaders. It is expected that widespread sabotage and terrorist activities can and will be organized by Republican leaders and that the Dutch will probably not achieve an effective degree of over-all stability within the time they have at their disposal. It is accordingly considered that military operations will drag on inconclusively and that the domestic politics of the Netherlands will gradually be unfavorably affected.

## 3. CHINA.

The speed of the breakdown of the National Government is considered to have been increased by Chiang Kai-shek's New Year peace message and its forthright rejection by the Communists. Chiang's proposals have had the effect of building up sentiment in favor of peace to unprecedented proportions in Nationalist China. In consequence it is doubtful if the will to fight can be revived in the remnants of the Nationalist army. At the same time, the flat Communist rejection of these proposals has strengthened Chiang's tactical position within his own government. Those Nationalist leaders who have advocated negotiations have had the ground cut from under their feet and are probably now incapable of forming an interim Nationalist regime to succeed that of Chiang. Furthermore, the appearance of most of these leaders on the Communist list of "war criminals" would seem to deny them any chance of playing significant roles in creating a coalition government. No realistic means is presently available either in or out of China for preventing the early establishment of a Communist-dominated government for all China.

The most immediate security problem for the US arises in connection with Taiwan, for here a serious threat to the US strategic position in the Western Pacific can rapidly develop. It can be assumed that the Communists, once in control in China, will endeavor to extend their control to Taiwan. Success in this respect would fix a Soviet-oriented force securely in a central position in the offshore defense belt envisaged by US strategy. At an early stage in the weakening of the National Government, a political opportunity appeared to be presented to the US of separating Taiwan from the Chinese mainland by supporting an incipient Taiwanese desire to set up an autonomous government. Any realistic possibilities that might have existed in this respect have now been nullified. The National Government has now provided for adequate military control of Taiwan and has well advanced its preparations for using this island as a safe haven for the last remains of Chiang Kai-shek's authority. Such a regime-in-exile, though presenting itself as the legal government of China, could not indefinitely outlast the pressure of Taiwanese discontent and Communist infiltration. It would be cut off from the resources of the mainland and would find its claims to international recognition viewed with growing doubt. It would, however, have something to bargain with—the undeniable importance of Taiwan to US strategic requirements. The fact that the National Government is asserting a legitimate authority over the island has fundamentally altered the situation in Taiwan. It is now difficult to see what can be

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done to safeguard US strategic interests there that does not simultaneously raise the question of commitments to a rump Nationalist regime.

4. THE NEAR EAST.

*The Thin Pie Crust—Greece, Turkey, Iran*

Greece still is and will continue to be the most troublesome sector of this strategic frontier between the US and the USSR. Turkey, in spite of its new government and a minor agitation about the movement of warships from Italy to the USSR, is firm. Iran is veering toward open US-orientation.

In Iran, the new government of Saed has steadily improved its position. Saed's US leanings have taken the form of the removal of dissident ministers, the extension of the US military mission contract, the establishment of a new US consulate, official publicity to counter USSR charges of US interference, and consultation with US Overseas Consultants Incorporated concerning a program of economic development. The USSR has generally held off from direct pressure. Even if this represents no more than a lull in the Soviet campaign against Iran, it has the practical advantage of providing a momentary breathing spell.

Although economic difficulties have finally brought about a change in cabinets, Turkey is still wholly committed to maintaining a strategic position in the Near East in line with US interests. In connection with this stand the US is being more openly approached for correlative commitments. Most significant is the Turkish interest in being specifically included in any security pact aimed at checking Soviet expansion. The official desire is that the US, in order to sustain Turkish morale, should constantly and officially repeat its intention of supporting Turkey's resistance to Soviet-Communist pressure. Even without such statements Turkish morale appears excellent. There is no indication of unwillingness, official or popular, to accept the burden of being indefinitely mobilized.

In contrast, Greece shows signs of becoming a "running sore," calling for constant doctoring but unable to respond to treatment. The military stalemate continues to benefit the guerrillas by furthering their intentions of undermining the moral fiber of the country by preventing its economic and political reconstruction. Greek economy has reached so advanced a state of inflation that an adverse military or political development could easily touch off an explosion. Neither the government nor the opposition can offer decisive solutions to the military and economic problems, and are caught in a web of political maneuvers. A dictatorial solution remains a possibility. Greek morale has reached the point where it offers no foundation for any plan that requires attention and energetic development over a period of time. Yet the definition of Greece as a major US strategic interest is as valid as ever. Its significance has, if anything, been increased rather than diminished by the general pattern of instability and uncertainty that has taken shape in the Near and Middle East. The factors which originally led to the acceptance of a US commitment in Greece still clearly operate. The return on the US investment, in the form of stability, has not been realized.

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Although Greece remains free from Soviet-Communist domination the cost of achieving this result can be steadily made to mount by the application of comparatively little effort on the part of the guerrillas.

*The Arab States*

The stabilization—or conversely the breakdown—of a system of states as loosely knit, as politically immature, and as habitually disordered as those of the Near East, is bound to be a lengthy process and difficult to measure with any certainty. It does, however, begin to look as if the Arab world is coming uncomfortably close to a critical point in its postwar history. Chronologically, the situation stems directly from the Palestine conflict, which has stimulated political extremism of the Right and the Left, and has as well speeded up the process of social and economic dislocation. The union of superior force and clearly defined objectives in Israeli hands, the inability of the UN to render and implement a decision, the political unrealism and military optimism of the Arab League have continued to leave the basic initiative with Israel. The consequence has been that a dynamic Zionism, indirectly aided by the inability of the US and the UK to arrive at an agreed and consistently applicable course of action, has gained an initial victory over a poorly organized Arab opposition. This conflict has left an Israeli state in being, has driven wedges into the Arab League, and is now obliging the political leaders of the individual Arab States to deal with greatly worsened internal problems.

Israel has its own internal political balance to establish. An intense struggle for political control, held more or less in abeyance by the problem of establishing a state, has developed in anticipation of elections at the end of this month. It is probable that the moderate socialist party MAPAI, which controls the present coalition, will continue to dominate a new coalition; and that it will be supported by the religious and center parties. Right and Left wing blocs, however, have emerged and may exercise a more direct political influence. But, even when political competition has reached a point of balance, economic viability will have to be achieved and foreign relations stabilized. In both these respects, there is a marked but tacit tendency to assume favorable US interest and prolonged financial support.

In the Arab States, with the exception of Saudi Arabia which rests comfortably on oil royalties and a US-UK interest in air bases, there are signs of trouble. The Egyptian Prime Minister was assassinated in an atmosphere of Moslem-nationalist fanaticism; the Syrian government collapsed in consequence of demonstrations against its inadequacy in the Palestine war and its inability to solve economic problems; and the Iraqi Cabinet resigned when student-organized strikes and demonstrations got out of hand. No one of these events would in itself suggest anything unusual in the political life of a Near Eastern country. It is their simultaneous occurrence in different areas and in conjunction with confused political aspirations, economic difficulties, and heightened social tensions that is significant. The real danger is that the political leaders in the Arab States will increasingly find that their traditional methods of maintaining them-

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selves and exercising authority are being outdistanced by trends and events over which they have no control.

5. YUGOSLAVIA.

The position of Marshal Tito has become so paradoxical that an examination of it is useful in relation to the broad US-USSR power conflict in Europe and the Mediterranean and in anticipation of the reopening of the question of an Austrian peace treaty. Relations between Yugoslavia and the USSR have definitely taken a turn for the worse. Mutual accusations for the record have become increasingly sharp. The economic boycott imposed by the Soviet bloc is virtually complete. The serious effects of the latter on the present and planned economy of Yugoslavia have been publicly admitted.

The factors that affect Tito's decisions are fundamentally contradictory. They can be summarized as follows:

- a. A significant political deviation toward Western democracy would turn away his devoted Communist supporters.
- b. The only quick solution of his economic problem lies in development of more comprehensive trade links with the West.
- c. The development of trade links with the West requires a modification of his vigorous anti-Western foreign policy.
- d. Effective accommodation with the USSR can only be had on a basis of absolute subservience because Soviet relations with her entire satellite bloc do not permit the toleration of nationalist policies.
- e. Recantation is impossible because it would deprive Tito of the strength he presently draws from Yugoslav nationalism.

The USSR and the Satellites have done everything possible to underline the contradictions. Trade agreements have been ignored and such trade as has been permitted will be drastically cut down in 1949. Oil exports from the Satellite States have been stopped, and shipments of Polish coal and Czech heavy machinery have been curtailed. In fact, Yugoslavia has been deliberately pushed toward economic disaster; presumably with the intention of creating social chaos and political confusion.

Tito's responses have taken the form of persistent and increasing attempts to establish and expand commercial ties with the West and, contradictorily, to reassert his ideological and political identity with the USSR in the broad East-West conflict. The first type of response has been largely confined to trying to reestablish, in a controlled form, former trade-links with Western Europe. To date, commercial treaties have been negotiated with the UK, Belgium, the Netherlands, Switzerland, Western Germany, and Austria. This effort has run into opposition from the US policy of export controls, as that policy has been implemented in ECA agreements. Tito is now seeking to reduce this opposition by proposing to commit a sizable part of the production of Yugoslav metals in exchange for US industrial equipment, if the application of the US export control policy is eased with respect to Yugoslavia. The second type of response, most

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clearly developed in the Foreign Minister's speech at the end of December, where the USSR policy for dealing with the "imperialistic" West was defined as Yugoslav policy also, patently undercuts any satisfactory trade negotiations with the US.

The most that can be said at this time is that Tito is coming steadily nearer to the point at which he must make fundamental choices. In this sense, the situation is becoming more fluid and hence more susceptible to US influence and manipulation. It has not, however, reached the point where a firm US decision about a course of action can yet be made. A careful loosening of export controls might now serve a useful political end if it enabled Tito to keep his head above water month after month, but did not commit the US to saving him. It is possible that need and circumstances will force Tito tacitly to modify his adherence to a Soviet policy line in international relations. There are signs of softening in connection with his current negotiations with Italy. A more important test will come in connection with the Austrian treaty; and opportunities to moderate his position are always available in connection with Trieste and the support of the Greek guerrillas. But, until inescapable economic necessity has forced Tito definitely to show his hand, the proper basis for a US decision does not exist.

## 6. LATIN AMERICA.

Two important developments have taken place in connection with broad problems in the relations of the states of the inter-American system. First, three recent military coups have raised doubts of the policy, stated in Resolution XXXV of the 1948 Conference at Bogota, governing the recognition of new governments. Second, the machinery of the Organization of American States (OAS), established by the Rio Treaty of 1947, has been quickly set in motion to resolve differences between two members of the Organization.

*Recognition of Revolutionary Governments*

The general problem of the recognition of governments established by force has a long history in inter-American relations. One of several possible solutions was approved by the Bogota Conference in Resolution XXXV. This Resolution was generally understood at the time to define a policy of "automatic recognition." It seems, however, to have been considered by the Latin American states rather as a formal US commitment not to use or to withhold recognition as an instrument of influence and control, than as a limitation on their own policies. Latin American countries have generally indicated that they, as a group, will not grant any inter-American organization broad authority to sit in judgment upon the propriety, legitimacy, or democracy of new governments that may emerge on the Latin American scene. A series of military coups has reopened the general question of recognition. The matter has not come formally before the Council of OAS, but it has been made the subject of extensive consultation between the US and Latin American chancelleries.

Some governments deplore the prompt and general recognition—in accordance with Resolution XXXV—which was given the Peruvian military government and wish some special method to be devised for use against the successful military leaders of

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Venezuela in order to discourage imitators. The situation is further complicated by the El Salvador coup, whose leaders seem definitely liberal-minded, and which would probably have been promptly recognized but for the situation in Venezuela. In short, the problem and the principle of recognition are up for re-examination. The Bogota Resolution XXXV seems to have accomplished little beyond eliminating the possibility of strong US leadership. Many Latin American countries still do not share the US objection to reaching political decisions by violence, insist on distinguishing between "good" and "bad" resolutions, and still prefer to be free to mobilize opposition, both to old and new governments, on an *ad hoc* basis.

*The Rio Treaty and the Costa Rica-Nicaragua Controversy*

This controversy was precipitated when a force of mixed nationals based on Nicaraguan territory invaded Costa Rica. The act of invasion was taken to represent an illegal attack on an American state, and the Council of OAS resolved itself without substantial disagreement into the Organ of Consultation under the authority of the Rio Treaty. A fact-finding commission was appointed and sent to the area without the usual formality of asking permission of the contending countries for the visit. It is noteworthy that the Chairman of the Council, even though his country (Argentina) had not ratified the Rio Treaty and would be consequently excluded from a final decision, aggressively guided deliberations toward positive action. It is too early to estimate the results of this action, and, in any event, it must be recognized that its decisiveness may have been conditioned by the fact that only minor countries were involved. Regardless, however, of the end result, the procedure used is of considerable significance and provides a precedent as well as a formula for future use in more serious situations.

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